

Impairment: IASB – FASB Comparison

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ABSTRACT

This paper focuses on the accounting concept of impairment of long lived assets and goodwill. The objective is to identify the differences between the Financial Accounting Standards Board's (FASB) and the International Accounting Standards Board's (IASB) standards on impairment and to recommend a converged standard that will be acceptable to both bodies. Information for the research was obtained through primary sources such as the FASB Codification, Statements of Financial Accounting Concepts and International Accounting Standards. Information obtained from the FASB and IASB web sites, other professional research, and trade articles supplemented the primary sources. The paper identified three differences between the FASB and IASB for impairments: (1) the methods of determining impairment and its calculation, (2) the allocation of goodwill, and (3) the reversal of goodwill. We recommend there should be a two-step process to test for impairments.

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INTRODUCTION

Recently, accounting for impairment of assets has received significant recognition in the popular press. Due to the economic crisis in the U.S. and the ongoing steps towards convergence with International Financial Reporting Standards (IFRS), a focus on potential balance sheet impairment has come to the forefront. "Difficult economic conditions should always call into question the values placed on assets in corporate balance sheets. Many corporations, auditors, and analysts expect to see a lot of restructuring and write-downs in the near future" (Soroosh, 2002). This paper examines the accounting issue of impairment for two of the biggest areas of concern on the corporate balance sheet, long-lived assets and goodwill. First, we detail the treatment of impairment by the International Accounting Standards Board (IASB). Second we look at the way the Financial Accounting Standards Board (FASB) treats the issue. Third, we focus on an analysis of where the two governing bodies differ in their treatment of impairment. In the final section, we provide a recommendation of how the IASB and FASB should proceed with impairment in the ongoing convergence process. Throughout this paper the term "asset" should also be inclusive of "asset group."

Impairment relates to the accounting concepts of historical cost and fair value. If the intent is to hold an asset for a long time, the cost of the asset is allocated over time through depreciation. The depreciation of the asset ties in with the matching concept, whereby the cost of the asset is

matched with financial benefits. The carrying value or adjusted book value of the asset (historical cost less accumulated depreciation) at any time period may not reflect the current fair value of the asset. If the carrying value is less than the fair value, impairment has occurred.

IASB

The IASB was founded in 2001 and is the standard-setting body of the International Financial Reporting Standards Foundation. It was preceded by the International Accounting Standards Committee which operated from 1973 through 2001. The IASB has 15 Board members from 11 countries and reports to the International Accounting Standards Committee Foundation. According to the IFRS, there are approximately 120 countries that permit the use of IFRS. However, of those countries that allow the use of IFRS, 90 of those countries fully conform to IFRS (IFRS FAQ's, 2011).

Impairment is a broad topic and is addressed in numerous IASB standards:

- IAS 2: Inventories,
- IAS 4: Insurance Contract assets,
- IAS 5: Non-current assets held for sale,
- IAS 11: Assets arising from construction contracts,
- IAS 12: Deferred tax assets,
- IAS 19: Assets arising from employee benefits,
- IAS 36: Impairment of assets,
- IAS 39: Financial assets,
- IAS 40: Investment property carried at fair value,
- IAS 41: Agricultural assets carried at fair value (Deloitte IAS PLUS, 2011).

As defined by the IASB, impairment of an asset occurs “when its carrying amount exceeds its recoverable amount (Deloitte IAS PLUS, 2011).” Further defined, the carrying amount is the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and accumulated impairment losses. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. An asset's fair value is the amount that could be realized from an arm's length sales between two willing and knowing parties (Deloitte IAS PLUS, 2011). The in use value is defined as the discounted present value of the future cash flows expected to arise from: the continuing use of an asset and from its disposal at the end of its useful life (Deloitte IAS PLUS, 2011). In simpler terms, if the fair value of the asset is less than the carrying value, the asset is impaired and it should be written down. The difference is then recognized as a loss.

This paper will focus on IAS 36 - *Impairment of Assets*. IAS 36 includes (but is not limited to) the following assets:

- Land,
- Buildings,
- Machinery and equipment,
- Investment property carried at cost,
- Intangible assets,
- Goodwill,
- Investments in subsidiaries, associates and joint ventures carried at cost,
- Assets carried at revalued amounts under IAS 16 and IAS 38 (Deloitte IAS PLUS, 2011).

The objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount, and to define how the recoverable amount is determined (ISAC, 2011). The first IASB Standard that addressed asset impairment was IAS 16 – *Accounting for Property, Plant and Equipment*, which was effective from 1983. IAS 36 began as Exposure Draft E55 in 1997. In June 1998, IAS 36 was drafted and it became effective in July of 1999. Revisions and/or amendments to IAS 36 happened in 2004, 2008 and 2010. Currently there are no amendments under consideration by the IASB for IAS 36 (Deloitte IAS PLUS, 2011).

There are three main issues that have to be identified when working with asset impairment and IAS 36. First, assets must be identified as having the potential of being impaired. Second, there must be a method of calculating the amount of impairment, if any. Lastly, what is to be done with any impairment if found. Identifying assets that have the possibility of being impaired is relatively straight forward. All assets have the potential for impairment. Buildings can be destroyed, investments can lose market value, land can be declared an environmental hazard and equipment can become obsolete. IAS 36 requires an entity at each reporting date to assess whether or not there is an indication that an asset may be impaired. However, when it comes to intangible assets, IAS 36 requires that the entity test annually for impairment by comparing its carrying amount with its recoverable amount (IASB, 2011).

IAS 36 states that an asset may be impaired when there is an indication of impairment. IAS 36 identifies those indicators as:

- **External Sources:** These are indicators outside of the entity's control over the assets. Examples of these items include: current market value for similar assets, interest rate changes, technological changes, economic or legal changes.
- **Internal Sources:** These indicators are those that are within the control of the entity. These include evidence of obsolescence or physical damage of the asset, plans to discontinue asset usage, plans to dispose of the asset, and evidence that the asset performance is deteriorating, (IASB, 2011).

The entity must review the indicators above for each reporting period for all assets. If the above indicators are present, the entity must perform an impairment test on the asset. Intangible assets on the other hand are treated differently. IAS 36 states that irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with indefinite life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount (IASB, 2011).

The method of calculating the amount of the impairment is done by comparing the recoverable amount to the carrying amount. Again, if the recoverable amount is less than the carrying amount, impairment has occurred. As defined previously, the recoverable amount of an asset is the greater of its fair value less costs to sell or the in use value. The best evidence of an asset's fair value is a price in a binding sale agreement in an arm's length transaction (IASB, 2011). The next best evidence would be an active market for the asset where similar assets would be traded. Lastly, the value could be based upon the best information available to reflect an amount that the entity could obtain in an arm's length transaction between willing and knowing parties. Costs of sale are deducted from this value and would include items such as legal costs, removal costs, taxes and others.

Value in use is defined as the present value of the future cash flows generated by the asset; it should include the following items:

- An estimate of the future cash flows the entity expects to derive from the asset,

- Expectations about possible variations in the amount or timing of those future cash flows,
- The time value of money, represented by the current market risk-free rate of interest,
- The price for bearing the uncertainty inherent in the asset,
- Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset (IASB, 2011).

The estimate of cash flow projections should be based on reasonable and supportable assumptions. The primary places to obtain cash flow projections would include recent budgets and forecasts. Reasonable estimates should be used for periods beyond budgeted projections. The cash flow projections should relate to the asset in its current condition. No consideration should be given for possible future asset improvements. Lastly, the estimates of future cash flows should not include cash inflows or outflows from financing activities.

In measuring value in use, the discount rate used should reflect current market assessments of the time value of money and the risks specific to the asset. The discount rate should equal the rate of return that investors would require if they were to choose an investment that would generate cash from a similar asset. The rate should not be adjusted for risks from future cash flows.

For impairment, the discount rate is the rate the entity would pay in a current market transaction to borrow money to buy that specific asset. If a market-determined asset-specific rate is not available, an alternative must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. The following considerations would also factor into the rate:

- The entity's own weighted average cost of capital,
- The entity's incremental borrowing rate,
- Other market borrowing rates (IASB, 2011).

IAS 36 requires the impairment, if any, to be charged against the asset. This means that the asset will be written down to the recoverable amount. The amount of the impairment is recognized immediately as a loss in the current period. However, the carrying value cannot be reduced below the highest of: the fair value less costs to sell, its value in use and zero.

IAS 36 does allow for recovery of impairment losses. The process to determine a recovery is the same approach as for the identification of impaired assets. The entity assesses whether there is an indication that an impairment loss may have decreased. If so, the firm recalculates the recoverable amount. The reversal of the impairment loss is recognized as income in the income statement. On the balance sheet, the increased carrying amount cannot be more than what the depreciated historical cost would have been if the impairment had not been recognized. The entity then readjusts the depreciation schedule for the future periods.

Goodwill generally arises from a business combination. The amount of the goodwill is that amount paid in excess of the value of the firm acquired. The goodwill associated with the combination is allocated to each of the cash-generating units (CGU) that are expected to benefit from combination. The goodwill for each unit that was allocated will be tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognize an impairment loss (IASB, 2011).

The impairment loss, if any, is allocated to reduce the carrying amount of the assets of the unit in the following order:

- First, reduce the carrying amount of any goodwill allocated to the cash-generating unit,
- Then, reduce the carrying amounts of the other assets of the unit pro rata on the basis (IASB, 2011).

The carrying amount of an asset should not be reduced below the highest of its fair value less costs to sell, its value in use or zero (IASB, 2011).

IAS 36 also requires disclosure of impairment actions. Disclosures must include, but are not limited to, the following:

- Impairment losses recognized in profit or loss,
- Impairment losses reversed in profit or loss,
- Which line item(s) of the statement of comprehensive income,
- Impairment losses on revalued assets recognized in other comprehensive income,
- Impairment losses on revalued assets reversed in other comprehensive income (IASB, 2011).

FASB

The creation of the Financial Accounting Standards Board (FASB) was a product of the difficulties of previous accounting boards and/or committees in establishing accounting standards. As a result, in 1971 the American Institute of Certified Public Accountants (AICPA) formed the Wheat Committee which focused on the establishment of accounting principles. The Wheat Committee made the following recommendations:

- The establishment of a Financial Accounting Foundation. This foundation would have nine trustees whose principal duties would be to appoint members of the FASB and raise funds for its operation.
- The establishment of the FASB. The Board would have seven full-time members and would establish standards of financial reporting.
- The establishment of the Financial Accounting Standards Advisory Council. The Council, with 20 members, would consult with the FASB for establishing priorities and task forces as well as reacting to proposed standards (Wolk et al., 2008).
- As a result of these findings the FASB was organized on July 1, 1973.

The accounting for the treatment of impaired assets has been dealt with in a couple different statements. First, SFAS 121 – *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, was issued in 1995 and replaced the accounting and reporting provisions of APB 30, and amended ARB 51 on consolidated financial statements. Next, statement SFAS 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*, issued in August 2001. SFAS 144 brought refinements to SFAS 121 but did not change the basic measurement rules (Wolk et al., 2008). In particular, SFAS 144 retained SFAS 121 requirements to recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, and to measure an impairment loss as the difference between the carrying amount and the fair value of the asset. For the definition of fair value, SFAS 144 incorporates the guidance in FASB Concepts Statement #7 - *Using Cash Flow Information and Present Value in Accounting Measurements*, with regard to using present value techniques to measure fair value. SFAS 144 did not apply to many intangible assets such as goodwill and intangible assets (Wolk et al., 2008).

SFAS 144 has been superseded by the FASB's Codification which addresses the concept of impairment in the following sections:

- 310 – Receivables,
- 320, 323 & 325 – Investments,
- 330 – Inventories,
- 340 – Other Assets & Deferred Costs,
- 350 – Goodwill & Intangibles,
- 360 – Plant, Property & Equipment.

Per the FASB website: "The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (US GAAP). The Codification is the result of a major 5-year project involving more than 200 people from multiple entities (FASB Codification Notice, 2011)." The codification project had three goals:

- Simplify user access by codifying all authoritative US GAAP in one spot,
- Ensure that the codified content accurately represented authoritative US GAAP as of July 1, 2009,
- Create a codification research system that is up to date for the released results of standard-setting activity (FASB Codification Notice, 2011).

Per the FASB Codification, an impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. Still maintaining some of SFAS 144, the carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment is based on the carrying amount of the asset at the date it is tested for recoverability.

Like the IASB, an asset must be tested for impairment when there are indicators of loss of value such as:

- Decreases in market prices of assets,
- Adverse changes in the use of the asset or physical condition,
- Adverse changes in the economic environment,
- Losses generated from the asset or little chance that the asset will be sold or disposed of prior to the end of its useful life (FASB Codification Topic 360, 2011).

If these indicators point to a potential impairment issue then a two step approach is utilized. First, a test is done to determine if the undiscounted future cash flow generated by the asset are more than the carrying value of the asset. If the undiscounted cash flows are greater than the carrying value there is no impairment. If the undiscounted cash flows are less than the carrying value then there is impairment and we move to a second test. The second test actually measures the impairment. The impairment is measured as the difference between the carrying amount and the fair value.

The FASB Codification states that for long-lived assets that have uncertainties both in timing and amount, an expected present value technique will often be the appropriate technique with which to estimate fair value (FASB Codification Topic 360, 2011). That present value technique appears to be determined by Statement of Financial Accounting Concept (SFAC) #7 – *Using Cash Flow Information and Present Value in Accounting Measurements* and SFAC 157 – *Fair Value Measurements*. SFAC 7 was issued in 2000 while SFAC 157 was issued in 2006. SFAC 157 does not replace SFAC 7 but incorporates it into the guidance for present value techniques. SFAC 7 states that "the only objective of present value, when used in accounting

measurements, is to estimate fair value” (FASB, 2008). SFAC 7 and SFAC 157 detail that a fair value calculation of an asset determined by a present value technique should capture the following:

- An estimate of future cash flows of the asset,
- Expectations about possible variations in the amount or timing of the cash flows,
- The time value of money, represented by the rate on risk free monetary assets with similar maturities,
- A risk premium that reflects uncertainty of the cash flows,
- Other case specific factors (FASB, 2008).

As with the IAS 36, the estimated future cash flows have a big influence over the present value calculation. FSAC 7 is clear that there are a variety of different approaches to establishing future cash flows. “When contractual cash flows are not available, some applications use an estimate of the single most likely amount or **best estimate** (FASB, 2008).” This quote points out the potential subjective nature of the computation of future cash flows. Fair value captures all of the above elements that the marketplace would apply in determining the amount for which the asset could be bought or sold between willing parties.

The impairment, if any, is recognized as a loss in the period the impairment is identified. If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis (FASB Codification Topic 360, 2011). For a depreciable long-lived asset, the new cost basis is then depreciated over the remaining useful life of that asset. A final note worth pointing out is that the FASB currently does not allow for the reversal of impairment loss for any asset.

Goodwill is discussed under the FASB Codification section 350 – *Intangibles, Goodwill & Other*. Under GAAP, goodwill is not amortized and is to be tested for impairment at a level of reporting referred to as a reporting unit. Impairment under goodwill is the same concept as it was for long lived assets in that it exists when the carrying amount of goodwill exceeds its implied fair value. The issue with goodwill is that it can only be measured as a residual and cannot be measured directly. Goodwill impairment is measured under a two step approach (FASB Codification Topic 360, 2011).

The first step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit is the price that would be received if the unit was sold in the market at an arm’s length transaction between willing parties. Available market prices are the best evidence of fair value and, if available, used as the fair value. If a market prices or a market do not exist, FASB allows a valuation based on multiples of earnings or revenue. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any (FASB Codification Topic 360, 2011).

There may be a case where the carrying amount of a reporting unit is zero or negative. In this case, when it is “more likely than not” that a goodwill impairment exists, the second test should also be performed on any goodwill allocated to that unit. Determining whether it is “more likely than not” that goodwill impairment exists FASB allows an entity to evaluate whether there are adverse qualitative factors, including the following examples:

- A significant adverse change in legal factors or in the business climate,
- An adverse action or assessment by a regulator,

- Unanticipated competition,
- A loss of key personnel,
- A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of,
- The testing for recoverability under the Impairment or Disposal of Long-Lived Assets of a significant asset group within a reporting unit,
- Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit (FASB Codification Topic 360, 2011).

The second step of the goodwill impairment test measures the amount of impairment loss. This is done by comparing the implied fair value of the goodwill with the carrying amount of the goodwill. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination or an acquisition. That is, an entity shall assign the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis. Subsequent reversal of a previously recognized goodwill impairment loss is not allowed.

FASB also requires disclosure of impairment issues within the financial statements. Per the FASB Codification, all of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:

- A description of the impaired long-lived asset and the facts and circumstances leading to the impairment,
- If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss,
- The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique),
- If applicable, the segment in which the impaired long-lived asset is reported under Topic 280 (FASB Codification Topic 350, 2011).

ANALYSIS

Both the FASB and IASB have adopted standards for the accounting for impairments, more specifically long-lived assets and goodwill. While both the FASB and IASB contain many similar characteristics, major discrepancies do exist in accounting for impairments between the two bodies. The levels of these discrepancies range from differences in reporting of specific entities or industries and can be as broad as differences in reporting for a country. The main differences between reporting impairments of long lived assets and goodwill and the reasons behind these differences include: the methods of determining impairment and its calculation, the allocation of goodwill, and the reversal of goodwill.

Method of Determining Impairment Calculation – Long-lived Assets

The first major difference between the IASB and FASB in accounting for the impairment of a long-lived asset is the process to determine if impairment exists. Under FASB, a two-step process is used to determine if impairment of a long-lived asset exists. The first step of this process identifies whether impairment does or does not exist in a reporting entity. This first step includes comparing the carrying value to the total undiscounted future cash flows. The process of comparing these two items is called the *Recoverability Test*. Impairment will not exist if the carrying amount is less than the total undiscounted future cash flows. Therefore, the long-lived asset is not impaired and there is no need to continue onto step two of the process (Procedural, 2011).

However, impairment loss does exist if the carrying value is not less than the total undiscounted future cash flows. When impairment loss exists, US GAAP states that the impairment loss needs to be calculated. The measurement of the loss is determined in the second step of the two-step process (Procedural, 2011).

On the other hand, the IASB does not use the two-step process found in SFAS 142. Instead, the IASB uses a one-step approach to measure impairment (Insights, 2011). The European Financial Reporting Advisory Group (EFRAG) eliminated the two-step process in IAS 36. There is now only one step because the EFRAG felt that the additional second step of the two-step process was too costly to implement. The benefit of using this second step does not outweigh the costs to implement the process (Shoaf, 2011).

Method of Determining Impairment – Goodwill

Similar to the method of determining impairment on a long-lived asset, the FASB also uses a two-step process to determine if goodwill is impaired. However, this test is different from that of a long-lived asset. The first step includes performing a *Recoverability Test* to compare the “estimated fair value of a reporting unit to its [the reporting units] carrying amount.” It is important to note here that the goodwill is included in the carrying amount when this comparison is being made, unlike the impairment test used for a long-lived asset (Shoaf, 2011).

If the *Recoverability Test* indicates goodwill impairment, the second step of the two-step process is completed to measure the loss. However, if the first test does not indicate impairment, the second step is not required. An impairment loss of goodwill is “reported as a charge to income from operations” if its carrying amount is greater than its estimated fair value amount (Shoaf, 2011). In addition, US GAAP also states “a recognized loss is not permitted to exceed the carrying amount of goodwill” (Procedural, 2011).

Under the IASB, determining the impairment of goodwill is also done using a “one-step approach.” This process does not differ from the process to test for impairment on a long-lived asset, unlike under US GAAP. A one step approach is also used here because the EFRAG also felt that the second step of the two-step process was too costly to implement and that it created an “unnecessarily complex” process to implement (Shoaf, 2011).

The one step approach under IASB does not test for *Recoverability*. Instead, this process calculates the impairment loss for the cash-generating unit (CGU) or a group of CGUs. CGUs will be further discussed in the next section. The loss is calculated by comparing the recoverable amount to the carrying value, goodwill included. If the carrying value is greater than the recoverable amount, an impairment loss is recognized (Procedural, 2011).

Allocation of Goodwill

When allocating goodwill, there are two very distinct differences between FASB and IASB. Under FASB, goodwill is to be allocated based on the useful life of the reporting unit level. (ASC 350) FASB Codification defines a reporting unit as “an [operating segment](#) or one level below an operating segment” (FASB: Financial, 2008). As stated earlier, the impairment test under US GAAP is first performed using at the reporting unit level. It is reported at the reporting unit level because “assets and liabilities of an acquisition, including goodwill, become so integrated with the acquiring company that they are indistinguishable from the company's other assets and liabilities” (Impairment, 2011).

Under the IASB, goodwill is to be allocated using a cash generating unit (CGU). IAS 36 defines a cash generating unit as “the smallest identifiable group of assets that generates cash inflows.” These CGUs are “largely independent of the cash inflows from other assets or groups of assets” (IASB, 2011).

Goodwill is allocated differently using a CGU than a reporting unit level. Recall that an impairment loss under IASB is calculated when the carrying amount (including goodwill) is greater than the recoverable amount. Under US GAAP, the loss would then be allocated within its reporting unit. However, under IFRS, this loss would initially be allocated to goodwill so that the balance “is reduced to zero.” The remaining amount is furthermore allocated to assets within the CGU. The amount allocated to each asset is determinant on the carry amount each asset holds. The calculation is done on a pro rata basis. Unlike goodwill, the assets carrying value may not necessarily be reduced to zero or even “below the highest of its fair value less costs to sell” (Insights, 2011).

The differences in allocation of goodwill occur because of the environment. The direct approach used by the FASB uses a reporting unit level to best fit companies. On the other hand, the IASB allocates goodwill at the CGU level. This residual approach is more tailored to the nature of companies who follow IASB standards. However, it is evident that both boards are subject to political influences (Procedural, 2011).

Reversal of Goodwill

The IAS 36, issued by the IASB, addresses the recovery of impairment losses. This standard states that when a previously recognized impairment loss no longer exists or has decreased, the amount can be reversed. However, under FASB, this is not the case for goodwill. In fact, US GAAP states that under no circumstances can a prior period impairment loss be reversed (IFRS and US GAAP, 2011).

Under FASB, the impairment loss of goodwill in a previous period cannot be reversed. This is because the impairment loss was the result of an unexpected external event. As a result, it is hard to specifically identify that particular event that caused the impairment. Therefore, reversing the effects of the event become increasingly difficult due to the event itself being unknown. This is due to the circumstances in the environment that create unidentifiable events to directly tie the effects to (Bhattacharyya, 2006).

RECOMMENDATIONS FOR CONVERGENCE

The FASB and IASB are working jointly on the convergence project of impairments of long-lived assets and goodwill. It is currently one of the short-term projects agreed upon by the FASB and IASB. However, there are several issues that have yet to be worked out or even addressed.

Based on accounting research for this topic, we conclude that there are certain aspects that each set of standards hold that would create a new, improved standard for both Bodies (IAS Plus: IASB Agenda, 2011).

Based on the differences addressed in the previous sections, there are certain aspects we support from both reporting bodies. First, there should be a test that does test for impairment of long-lived assets and goodwill. However, we suggest that there should still remain a two-step process to test for impairments. Despite the initial extra cost to implement a process like this, we conclude it is a better option to first test for impairment and then proceed to calculate the estimated loss only if the first test indicates impairment. We suggest that the IASB's one-step approach that simply calculates the impairment loss without testing to see if one exists will, in the long run, create additional expenses.

Additionally, the new single standard should continue to test for goodwill impairment annually as both the FASB and IASB currently do. We suggest that there will also be benefit to companies if impairment of long-lived assets and goodwill is tested when specific events indicate that there is a chance for either to be impaired (Impairment, 2011).

Currently, the IASB has one impairment test that tests for both long-lived assets and goodwill. Due to the high level of integration and involvement that both of these items can have in a company, we suggest that it is best that there are two different tests to perform each of those areas. In fact, a possible third test for other intangible assets would also provide a more clear definition of those areas of a company to investors, creditors, and users of the financial statements. More specifically, Stephanie Harper of AllBusiness.com states that a separate goodwill impairment test will "provide greater transparency regarding the economic value of goodwill and the amount and timing of its impact on earnings" to investors (Impairment, 2011).

Furthermore, impairments should also be tested at the reporting level instead of at the cash-generating unit level. This is due to the high level of integration that "assets and liabilities of an acquisition" have, and become intertwined within the company. If these two items were tested at a smaller level, the CGUs, it would become increasingly difficult to distinguish them from other assets and liabilities that company has (Impairment, 2011).

Finally, we also suggest that the loss calculated with the impairment of goodwill should first be allocated to goodwill itself to reduce the balance to zero. Only after the balance is reduced to zero can the remaining amount be allocated to other assets. Not only will this be more specific to the cultural environment of the company, it will also specifically focus on the goodwill itself first, and then consider other assets.

CONCLUSION

Due to varying aspects, such as environment, culture, politics, or specific industry practices, long-lived assets and goodwill are accounted for differently between standards under the FASB and IASB. These reporting standards produce efficiency and consistency across many companies. However, the current convergence project that will create a set of universal standards for all companies has proved to be difficult. When deciding which practices would benefit all companies around the world, issues begin to arise with the diversity of companies that would be required to follow these standards. After much research, we suggested a new standard that takes the best practices from both sets of standards under the FASB and IASB, and incorporates them into one universal standard that can satisfy most companies' needs. In

fact, Ernst and Young stated, “in our view, the common approach is a conceptual compromise” that does not consist of “separate and different objectives of the IASB and the U.S. FASB[....]. Rather, the common approach includes elements of each (Insights, 2011).

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